

Client: **Richmond Telephone Company**  
 Engagement:  
 Period Ending: **12/31/2012**  
 Trial Balance:  
 Workpaper:

Account	Description	1st PP-FINAL 12/31/2011	FINAL 12/31/2012
<b>Group : [1100] Cash &amp; Equivalents</b>			
<b>Subgroup : [1105] Cash and Equivalents</b>			
1130	Cash - Legacy Banks		
1132	Cash-Berkshire Bank		
1133.0000	Berkshire Bank Flex Account		
1150	Petty Cash		
<b>Subtotal [1105] Cash and Equivalents</b>			
<b>Total [1100] Cash &amp; Equivalents</b>			
<b>Group : [1200] Investments</b>			
<b>Subgroup : [1205] Investments</b>			
1401	Investment in Non-Affiliated C		
<b>Subtotal [1205] Investments</b>			
<b>Total [1200] Investments</b>			
<b>Group : [1300] Receivables</b>			
<b>Subgroup : [1305] Accounts Receivable</b>			
1180	A/R - Telecommunications Cust		
1190	A/R - Other		
1190.1	A/R - NECA		
1190.3	A/R - VERIZON		
1190.31	A/R - Verizon E-911		
1190.5	A/R - Carriers		
<b>Subtotal [1305] Accounts Receivable</b>			
<b>Subgroup : [1310] Allowance for Doubtful Accounts</b>			
1180.1	Allowance for Doubtful Accts		
<b>Subtotal [1310] Allowance for Doubtful Accounts</b>			
<b>Total [1300] Receivables</b>			
<b>Group : [1400] Inventory</b>			
<b>Subgroup : [1405] Inventory</b>			
1220	Materials & Supplies		
1220.1	Inventory Clearing Account		
1221	Materials & Supplies - Exempt		
1223	Supplies - Non-Regulated		
<b>Subtotal [1405] Inventory</b>			
<b>Total [1400] Inventory</b>			
<b>Group : [1500] Prepaid Expenses</b>			
<b>Subgroup : [1505] Prepaid Expenses</b>			
1300	Prepaid Expense - Taxes		
1310	Prepaid Expense - Insurance		
1330	Prepaid Expense - Other		
1330.0003	Prepaid Expense - Nortel Trans		
1330.0005	Prepaid Expense - Interest		
<b>Subtotal [1505] Prepaid Expenses</b>			
<b>Total [1500] Prepaid Expenses</b>			

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<b>Current Assets</b>			
<b>Group : [1200]</b>	<b>Investments</b>		
<b>Subgroup : [1215]</b>	<b>Equity Investments</b>		
1404	Investment - Connections (RNX)		
<b>Subtotal [1215]</b>	<b>Equity Investments</b>		
<b>Total [1200]</b>	<b>Investments</b>		
<b>Group : [1700]</b>	<b>Property, Plant and Equipment</b>		
<b>Subgroup : [1705]</b>	<b>Land</b>		
2001.211	Tel in Svc - Land & Support		
2001.2111	Tel in Svc - Land		
<b>Subtotal [1705]</b>	<b>Land</b>		
<b>Subgroup : [1710]</b>	<b>Buildings</b>		
2001.2121	Tel in Svc - Buildings		
<b>Subtotal [1710]</b>	<b>Buildings</b>		
<b>Subgroup : [1730]</b>	<b>Machinery and Equipment</b>		
2001.2113	Tel in Svc - Work Equipment		
2001.2212	Tel in Svc - C/O Equipment		
2001.2232	Tel in Svc - Circuit Equipmen		
2001.231	Tel in Svc - Information Orig		
2001.2311	Tel in Svc - STA Apparatus		
2001.2313	Tel in Svc - Voice Mail		
2001.2321	Tel in Svc - STA Conn Outside		
2001.2322	Tel in Svc - STA Conn in 1981		
2001.2323	Tel in Svc - STA Conn in 1982		
2001.2324	Tel in Svc - STA Conn in 1983		
2001.2325	Tel in Svc - STA Conn in 1984		
2001.2411	Tel in Svc - Pole Line		
2001.2421	Tel in Svc - Aerial Cable		
2001.2422	Tel in Svc - Underground Cabl		
2001.2423	Tel in Svc - Buried Cable		
2001.2431	Tel in Svc - Aerial Wire		
2001.2441	Tel in Svc - Underground Cond		
<b>Subtotal [1730]</b>	<b>Machinery and Equipment</b>		
<b>Subgroup : [1740]</b>	<b>Autos and Trucks</b>		
2001.2112	Tel in Svc - Motor Vehicles		
<b>Subtotal [1740]</b>	<b>Autos and Trucks</b>		
<b>Subgroup : [1750]</b>	<b>Construction in Progress</b>		
2003.2113	Tel Under Constr - Tel Equip		
2003.2212	Tel Under Constr - C/O Equip		
2003.2232	Tel Under Constr - Circuit Equ		
<b>Subtotal [1750]</b>	<b>Construction in Progress</b>		
<b>Subgroup : [1755]</b>	<b>Accumulated Depreciation</b>		
3100.211	A/D - Office Equipment		

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3100.2113	A/D - Work Equipment		
3100.2212	A/D - C/O Equipment		
3100.2232	A/D - Circuit Equip		
3100.231	A/D - Information Orig/Term		
3100.2311	A/D - Station Apparatus		
3100.2313	A/D - Voice Mail		
3100.2321	A/D - STA Conn Outside		
3100.2322	A/D - STA Conn in 1982		
3100.2323	A/D - STA Conn in 1983		
3100.2324	A/D - STA Conn in 1984		
3100.2325	A/D - STA Conn in 1985		
3100.2411	A/D - Pole line		
3100.2421	A/D - Aerial Cable		
3100.2422	A/D - Underground Cable		
3100.2423	A/D - Buried Cable		
3100.2431	A/D - Aerial Wire		
3100.2441	A/D - Underground Conduit		
<b>Subtotal [1755] Accumulated Depreciation</b>			
<b>Subgroup : [1770] A/D- Vehicles</b>			
3100.2112	A/D - Motor Vehicles		
<b>Subtotal [1770] A/D- Vehicles</b>			
<b>Subgroup : [1785] A/D - Buildings</b>			
3100.2121	A/D - Buildings		
<b>Subtotal [1785] A/D - Buildings</b>			
<b>Total [1700] Property, Plant and Equipment</b>			
<b>Group : [1800] Intangible Assets</b>			
<b>Subgroup : [1805] Intangible Assets</b>			
2001.269	Tel In Svc - Intangibles		
<b>Subtotal [1805] Intangible Assets</b>			
<b>Subgroup : [1845] Accum Amort - Other Intg Asset</b>			
3100.269	A/D -Plan		
<b>Subtotal [1845] Accum Amort - Other Intg Assets</b>			
<b>Total [1800] Intangible Assets</b>			
<b>Group : [1900] Other Long-Term Assets</b>			
<b>Subgroup : [1905] Other Assets</b>			
1400.0000	DEFERRED TAX ASSET		
<b>Subtotal [1905] Other Assets</b>			

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Account	Description	1st PP-FINAL 12/31/2011	FINAL 12/31/2012
<b>Total [1900] Other Long-Term Assets</b>			
<b>Group : [1950] Related Parties</b>			
<b>Subgroup : [1955] Related Parties</b>			
1190.6	A/R - RNX - P/R & Benfits		
1190.7	A/R - RNX - Other		
4010.1000	A/P - RNX B&C/PAR		
4010.15	A/P - RNX Other		
4010.17	A/P CSTC		
<b>Subtotal [1955] Related Parties</b>			
<b>Total [1950] Related Parties</b>			
<b>Non-Current Assets</b>			
<b>TOTAL ASSET</b>			
<b>Group : [2100] Accounts Payable</b>			
<b>Subgroup : [2105] Accounts Payable</b>			
4010	A/P - Trade		
<b>Subtotal [2105] Accounts Payable</b>			
<b>Total [2100] Accounts Payable</b>			
<b>Group : [2200] Accrued Liabilities</b>			
<b>Subgroup : [2205] Accrued Expenses</b>			
4010.0001	A/P - Other Accrued Exp		
<b>Subtotal [2205] Accrued Expenses</b>			
<b>Subgroup : [2210] Payroll Taxes Withheld &amp; Accrued</b>			
4010.2	A/P - Child Support		
4010.3	A/P - 401K Plan		
4010.31	A/P - EBS Flex Spending		
4080.5	Accr. Expenses - P/R Taxes		
<b>Subtotal [2210] Payroll Taxes Withheld &amp; Accrued</b>			
<b>Subgroup : [2215] Accrued Salaries and Wages</b>			
4110	Accrued Payroll		
4110.1	Accrued Vacation		
4110.2	Accrued Payroll Liability		
<b>Subtotal [2215] Accrued Salaries and Wages</b>			
<b>Subgroup : [2240] Other Taxes Payable</b>			
4029	Accr. Taxes - TRS		
4080	Accr. Taxes - E-911		
4080.2	Accr. Taxes - Fed Excise Tax		
4080.3	Accr. Taxes - Mass Sales Tax		
4080.8	Accr. Taxes - Mass Franchise		
<b>Subtotal [2240] Other Taxes Payable</b>			
<b>Total [2200] Accrued Liabilities</b>			
<b>Group : [2300] Other Current Liabilities</b>			

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Account	Description	1st PP-FINAL 12/31/2011	FINAL 12/31/2012
<b>Subgroup : [2305] Other Current Liabilities</b>			
4100.1	Net Current Def Op Inc Tax		
<b>Subtotal [2305] Other Current Liabilities</b>			
<b>Total [2300] Other Current Liabilities</b>			
	<b>Current Liabilities</b>		
	<b>Non-Current Liabilities</b>		
	<b>TOTAL LIABILITY</b>		
<b>Group : [3100] Equity</b>			
<b>Subgroup : [3105] Common Stock</b>			
4510	Capital Stock - Common		
<b>Subtotal [3105] Common Stock</b>			
<b>Subgroup : [3110] Additional Paid-in Capital</b>			
4515.0000	ADDITIONAL PAID IN CAPITAL FC		
<b>Subtotal [3110] Additional Paid-in Capital</b>			
<b>Subgroup : [3120] Retained Earnings</b>			
4550	Retained Earnings		
<b>Subtotal [3120] Retained Earnings</b>			
<b>Total [3100] Equity</b>			
	<b>Equity</b>		
	<b>NET (INCOME) LOSS</b>		
	<b>TOTAL EQUITY</b>		
	<b>TOTAL LIABILITY AND EQUITY</b>		
<b>Group : [4100] Revenue</b>			
<b>Subgroup : [4105] Revenue</b>			
5001	Basic Local Svc Revenue		
5001.0001	Basic Local Svc DSL Revenue		
5001.0002	Wholesale DSL Revenue		
5040	Local Private Line Revenue		
5060	Other Local Exchange Revenue		
5081	Interstate End User Revenue		
5081.0001	Interstate End User USF Revenu		
5081.0002	Wholesale DSL USF Revenu		
5082	Interstate Switched Access Rev		
5084.1	Intrast/Interlata Acc Rev MCI		
5084.1001	Intrast/Interlata Acc Rev Spri		
5084.1002	Intrast/Interlata Acc Rev AT&T		
5084.2	Intrastate/Intralata Acc Rev		
5084.3	Acc Rev - Other Carrier - MCI		
5084.3001	Acc Rev - Other Carrier - Spri		
5084.3002	Acc Rev - Other Carriers-Small		
5100	Long Distance Message Revenue		

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Account	Description	1st PP-FINAL	FINAL
		12/31/2011	12/31/2012
5100.0001	Long Distance Msg Revenue PARS		
5122	Long Distance Private Network		
5230	Directory Revenue		
5240.0001	Switch Lease		
5269	Other Revenue Settlements		
5270.1	B&C Revenue		
5270.3	B&C Intrastate Net Revenue		
5300	Uncollectible Revenue		
<b>Subtotal [4105] Revenue</b>			
<b>Subgroup : [4115] Other Revenue</b>			
7360.1	Miscellaneous Income		
7992.4	Other Non-Reg Rev - Inside Wir		
7996.1	Other Non-Reg - Internet P/R		
7996.5	Other Non-Reg - Int Ben matrnx		
7997.4	Other Non-Reg - Voice Mail		
<b>Subtotal [4115] Other Revenue</b>			
<b>Total [4100] Revenue</b>			
<b>Revenues</b>			
<b>Group : [4400] Other Income and Expenses</b>			
<b>Subgroup : [4402] Other Income</b>			
7330	Gain/Loss on Investment		
<b>Subtotal [4402] Other Income</b>			
<b>Total [4400] Other Income and Expenses</b>			
<b>Other Income</b>			
<b>TOTAL REVENUE</b>			
<b>Group : [4200] Cost of Revenue</b>			
<b>Subgroup : [4202] Miscellaneous Costs</b>			
6112.44	Motor Vehicle Exp - Taxes/Reg		
6530.3001	Network Ops Expense- Uniforms		
6530.41	Network Ops Exp - Illum conne		
6540	Access Exp - USAC		
6540.0001	Access Exp - Verizon Wireless		
6610.2	Marketing - Directory		
6610.3	Marketing - Advertising		
6620.4101	Svcs - Taconic On Call Ope		
<b>Subtotal [4202] Miscellaneous Costs</b>			
<b>Subgroup : [4224] Overhead Allocation</b>			
6210.4	C/O Switching - Operations		
6410.4	Cable & Wire Facil exp - Ops		
6530.3	Network Ops Exp -		
6530.4	Network Ops Exp - Operations		
6620.4	Svcs - Operations		
<b>Subtotal [4224] Overhead Allocation</b>			

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Account	Description	1st PP-FINAL 12/31/2011	FINAL 12/31/2012
<b>Total [4200] Cost of Revenue</b>			
<b>Cost of Sales</b>			
<b>Group : [4250] Selling Expenses</b>			
<b>Subgroup : [4252] Selling Expenses</b>			
6620.42	Svcs - DataEast Billing		
<b>Subtotal [4252] Selling Expenses</b>			
<b>Total [4250] Selling Expenses</b>			
<b>Group : [4300] General &amp; Administrative</b>			
<b>Subgroup : [4306] Auto Expenses</b>			
6105	Motor Vehicle Expense		
6112.43	Motor Vehicle Exp-Plant- Maint		
6720.41	Corp. G&A - Auto		
<b>Subtotal [4306] Auto Expenses</b>			
<b>Subgroup : [4308] Bad Debt Expenses</b>			
6725.4	Corp. - Collections Expense		
7100.2000	BAD DEBT EXPENSE		
<b>Subtotal [4308] Bad Debt Expenses</b>			
<b>Subgroup : [4310] Bank Fees</b>			
6720.4004	Corp. G&A - Bank / Filing		
<b>Subtotal [4310] Bank Fees</b>			
<b>Subgroup : [4314] Business Taxes and Licenses</b>			
6720.47	Corp. G&A - Real Estate Taxes		
6720.4701	Corp. G&A - Pers. Property Tax		
<b>Subtotal [4314] Business Taxes and Licenses</b>			
<b>Subgroup : [4322] Consulting and Computer Support</b>			
6720.45	Corp. G&A - Consult - ICORE		
6720.4505	Corp. G&A - Consult - Misc		
<b>Subtotal [4322] Consulting and Computer Support</b>			
<b>Subgroup : [4326] Depreciation and Amort.</b>			
6561.4	Depreciation Exp - Tel in Serv		
6720.4014	Corp G&A - Amortization		
<b>Subtotal [4326] Depreciation and Amort.</b>			
<b>Subgroup : [4328] Dues and Subscriptions</b>			
6720.4009	Corp. G&A - Dues & Subs		
<b>Subtotal [4328] Dues and Subscriptions</b>			
<b>Subgroup : [4330] Employee Benefits</b>			
6121.5	Land & Bldg - Ben matrix		
6210.5	C/O Switching Ben Matrix		

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Account	Description	1st PP-FINAL 12/31/2011	FINAL 12/31/2012
6223.5	C/O Transmission - Ben Matrix		
6410.5	Cable & Wire - Ben Matrix		
6530.5	Network Ops - Ben Matrix		
6530.5001	E-911 - Ben Matrix		
6620.5	Svcs- Benfits Matrix		
6710.5	Exec & Plan - Ben Matrix		
6720.5	Corp. G&A - Corp - Ben Matrix		
6730.1	Ben & Pmts - Payroll		
6730.2	Ben & Pmts		
6730.4003	Ben & Pmts - EBS		
6730.4103	Ben & Pmts- RNX Alloc		
6730.44	Ben & Pmts - Ins Hartford		
6730.4401	Ben & Pmts - GTL		
6730.4402	Ben & Pmts - Dental		
6730.4403	Ben & Pmts - Vision		
6730.4404	Ben & Pmts - BCBS		
6730.4409	Ben & Pmts - Profit Sharing		
6730.5	Ben & Pmts Matrix Offset		
<b>Subtotal [4330] Employee Benefits</b>			
<b>Subgroup : [4336] Insurance</b>			
6112.42	Motor Vehicle Exp-Plant- Insur		
6121.43	Land & Bldg - Insurance		
6728.4	Corp. G&A - Ins-W/C		
6728.4001	Corp. G&A - Ins-Commercial		
<b>Subtotal [4336] Insurance</b>			
<b>Subgroup : [4342] Meals and Entertainment</b>			
6720.4101	Corp. G&A - Meals		
<b>Subtotal [4342] Meals and Entertainment</b>			
<b>Subgroup : [4344] Miscellaneous Expenses</b>			
6720.4	Corp. G&A - Operations		
6720.4105	Corp. G&A - Other		
7100	Other Operating Inc and Exp		
7100.1	Other Operating Inc and Exp		
7360.2	Miscellaneous Expenses		
<b>Subtotal [4344] Miscellaneous Expenses</b>			
<b>Subgroup : [4346] Office Expenses</b>			
6720.4001	Corp. G&A - Office Supplie		
6720.4007	Corp. G&A - Bottled Water		
6720.4008	Corp. G&A - Computers Hard		
6720.401	Corp. G&A - Catering/Meals		
6720.4011	Corp. G&A - Supplies		
6721.4001	Corp. G&A - Record Storage		
<b>Subtotal [4346] Office Expenses</b>			
<b>Subgroup : [4352] Other Taxes and Licenses</b>			
6720.3	Corp. G&A - Regulatory Fees		
<b>Subtotal [4352] Other Taxes and Licenses</b>			

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<b>Subgroup : [4356] Payroll Taxes</b>			
6730.41	Ben & Pmts - P/R Taxes		
<b>Subtotal [4356] Payroll Taxes</b>			
<b>Subgroup : [4362] Postage</b>			
6720.4006	Corp. G&A - Postage		
<b>Subtotal [4362] Postage</b>			
<b>Subgroup : [4364] Professional Fees</b>			
6720.4005	Corp. G&A - Payroll Fees		
6721.4	Corp. G&A - Acct/Finance		
<b>Subtotal [4364] Professional Fees</b>			
<b>Subgroup : [4370] Rent</b>			
6720.4012	Corp. G&A - Copier Lease		
<b>Subtotal [4370] Rent</b>			
<b>Subgroup : [4374] Repairs and Maintenance</b>			
6121.4	Land & Bldg - Operations		
6121.41	Land & Bldg - Grounds		
6121.42	Land & Bldg - Office		
<b>Subtotal [4374] Repairs and Maintenance</b>			
<b>Subgroup : [4378] Salaries and Wages</b>			
6121.1	Land & Bldg - Payroll		
6210.1	C/O Switching - Payroll		
6223.1	C/O Transmission - Payroll		
6410.1	Cable & Wire Facil exp - P/R		
6530.1	Network Ops Exp - Payroll		
6530.1001	E-911 Payroll (as of 01/01/07)		
6530.1002	Network Op Exp - Contract labo		
6620.1	Svcs - Payroll		
6710.1	Exec & Plan - Payroll		
6720.1	Corp. G&A - Payroll		
<b>Subtotal [4378] Salaries and Wages</b>			
<b>Subgroup : [4380] Telephone</b>			
6720.4002	Corp. G&A - RNX Internet		
6720.43	Corp. G&A - Cell Phone Expense		
<b>Subtotal [4380] Telephone</b>			
<b>Subgroup : [4384] Travel</b>			
6720.4003	Corp. G&A - Official Tolls		
6720.4102	Corp. G&A - Travel		
<b>Subtotal [4384] Travel</b>			
<b>Subgroup : [4388] Interest Expense</b>			
7500	Interest Expense		
7500.2	Int&Penalty Expense		
<b>Subtotal [4388] Interest Expense</b>			
<b>Total [4300] General &amp; Administrative</b>			

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	<b>Operating Expenses</b>		
Group : [4500]	Income Tax Expense		
Subgroup : [4502]	Current Income Tax - Fed		
7220	Federal Income Taxes		
7240	Operating Taxes - Other		
Subtotal [4502]	Current Income Tax - Fed		
Total [4500]	Income Tax Expense		
	<b>Other Expenses</b>		
	<b>TOTAL EXPENSE</b>		
	<b>NET (INCOME) LOSS</b>		
	<b>Sum of Account Groups</b>		

***CORNERSTONE TELEPHONE COMPANY, LLC  
AND SUBSIDIARIES***

***CONSOLIDATED FINANCIAL STATEMENTS***

***DECEMBER 31, 2011***

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Tenl, Becker & Chiaramonte, CPAs, P.C. • Est. 1971

"A Higher Standard of Excellence"

7 Washington Square, Albany, NY 12205

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To The Members of  
Cornerstone Telephone Company, LLC  
and Subsidiaries  
Troy, New York

### Independent Auditors' Report

We have audited the accompanying consolidated balance sheet of Cornerstone Telephone Company, LLC and Subsidiaries as of December 31, 2011, and the related consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cornerstone Telephone Company, LLC and Subsidiaries as of December 31, 2011, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and consolidated supplemental information included in the accompanying Schedules I, II, and III is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such consolidating and consolidated information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating and consolidated information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such consolidating and consolidated information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating and consolidated information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Tenl Becker & Chiaramonte CPAs P.C.*

Albany, New York  
September 19, 2012

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Consolidated Balance Sheet**

December 31, 2011

**Assets****Current assets:**

Cash  
 Accounts and other receivables, net (Note 3)  
 Inventory  
 Prepaid expenses  
 Total current assets

**Property and equipment, net (Note 4)****Intangible assets, net (Note 5)****Goodwill (Note 18)****Deferred tax asset, net (Note 9)****Other investments (Note 6)****Other long-term assets****Total Assets****Liabilities And Members' Equity****Current liabilities:**

Short-term borrowings (Note 7)  
 Current portion of long-term debt (Note 8)  
 Current portion of capital lease obligations (Note 10)  
 Accounts payable and accrued expenses  
 Total current liabilities

**Deferred tax liability (Note 9)****Derivative instruments (Notes 17 and 18)****Capital lease obligations (Note 10)****Long-term debt (Note 8)****Total liabilities****Members' equity:**

Controlling interest  
 Accumulated other comprehensive loss  
 Non-controlling interest  
 Total members' equity

**Total Liabilities And Members' Equity**

The accompanying notes are an integral part of these consolidated financial statements

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Consolidated Statement Of Income****For The Year Ended December 31, 2011****%**

**Net sales**

**Cost of sales**

**Gross profit**

**Selling and administrative expenses**

**Operating income**

**Other income and (expenses):**

Interest and dividend income

Loss on disposal of assets

Loss from subsidiaries

Interest expense

Total other expenses, net

**Consolidated loss before provision for income taxes**

**Provision for income taxes (Note 9)**

**Consolidated net loss**

**Net income attributable to non-controlling interest**

**Net Loss Attributable To Controlling Interest**

The accompanying notes are an integral part of these consolidated financial statements

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES**

**Consolidated Statement Of Comprehensive Income**

**For The Year Ended December 31, 2011**

**Consolidated net loss**

**Other comprehensive loss:**

Loss on derivative instruments designated and qualifying as cash flow hedges

Reclassification adjustment

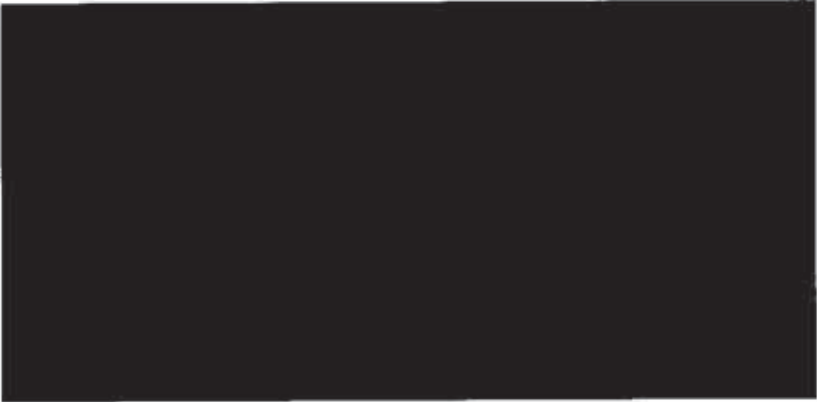
Other comprehensive loss

**Comprehensive Loss**



The accompanying notes are an integral part of these consolidated financial statements

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Consolidated Statement Of Changes In Members' Equity****For The Year Ended December 31, 2011**

	<b><u>Controlling</u></b>	<b><u>Non-Controlling</u></b>	<b><u>Accumulated Other Comprehensive</u></b>	<b><u>Total</u></b>
	<b><u>Interest</u></b>	<b><u>Interest</u></b>	<b><u>Loss</u></b>	
<b>Balance at January 1, 2011</b>				
<b>Comprehensive income (loss)</b>				
<b>Redemption of non-controlling interest</b>				
<b>Members' distributions</b>				
<b>Balance At December 31, 2011</b>				

The accompanying notes are an integral part of these consolidated financial statements

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Consolidated Statement Of Cash Flows****For The Year Ended December 31, 2011****Operating activities:**

Consolidated net loss  
 Adjustments to reconcile consolidated net loss to net cash flows  
   from (for) operating activities:  
   Depreciation and amortization  
   Loss on disposal of assets  
   Provision for losses on accounts receivable  
   Deferred income tax expense  
   Loss from subsidiary  
 Changes in operating assets and liabilities:  
   Accounts and other receivables  
   Inventory, prepaid expenses, and other assets  
   Accounts payable and accrued expenses  
   Net cash flows from operating activities

**Investing activities:**

Property and equipment expenditures  
 Expenditures on intangible assets  
   Net cash flows for investing activities

**Financing activities:**

Net payments on short-term borrowings  
 Principal repayments on subordinated long-term debt  
 Principal repayments on senior long-term debt  
 Principal repayments capital lease obligations  
 Distributions to non-controlling interest  
 Distributions to members  
   Net cash flows for financing activities

**Net decrease in cash****Cash - beginning****Cash - Ending**

The accompanying notes are an integral part of these consolidated financial statements  
 (6)

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES**

Consolidated Statement Of Cash Flows

For The Year Ended December 31, 2011

**Supplemental disclosures of cash flows information:**

Interest Paid

Income Taxes Paid

**Supplemental schedules of noncash investing and financing activities:**

Proceeds from long-term debt  
Less: purchases of subsidiaries

**Investments In Subsidiaries, Net**



The accompanying notes are an integral part of these consolidated financial statements

# CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

### Note 1: Summary Of Significant Accounting Policies

Background information - Cornerstone Telephone Company, LLC is a limited liability company formed in January 2002. Its purpose is to own and operate a telecommunications business and provide related services in the Northeastern United States.

Basis of consolidation - The accompanying consolidated financial statements include the financial statements of Cornerstone Telephone Company, LLC (the Company), Cornerstone Technology Services, LLC, CS Analysis Group, LLC, Richmond Telephone Company (including its wholly-owned subsidiary, Richmond Connections, Inc.), Distributed Applications Technologies, LLC (DAT), Public Interest Network Services, Inc. (PINS), Public Interest Telecommunications, Inc. (PITI), and Active Host Data Center, LLC. Intercompany transactions and balances have been eliminated upon consolidation.

Cornerstone Technology Services, LLC is a limited liability company formed in March 2006. Its purpose is the sale and installation of telecommunications equipment in the northeastern United States. The Company owns a 60% equity interest in Cornerstone Technology Services, LLC.

CS Analysis Group, LLC is a limited liability company formed in January 2008. Its purpose is to operate as an agent for the sale of telecommunications services throughout the United States. The Company owns a 77% equity interest in CS Analysis Group, LLC.

Richmond Telephone Company is a Massachusetts corporation, organized in 1902 to provide telephone service to residential and business customers in Richmond, MA. A significant portion of their revenue is derived from access and billing and collection charges from various carriers. Richmond Telephone Company's wholly-owned subsidiary, Richmond Connections, Inc., was organized in 1999 to provide telecom services and equipment, including internet services to customers in Richmond, MA. The Company owns all of the common stock of Richmond Telephone Company.

Distributed Applications Technologies, LLC is a limited liability company formed in August 2001. Its purpose is to own and operate an application service provider and computer network integration services business in New York State. On April 7, 2011, the Company acquired all of the non-controlling interest for [REDACTED] and became the sole member in DAT. The net book value of the non-controlling interest immediately prior to the acquisition was [REDACTED]. The excess purchase price over the net book value of the non-controlling interest was [REDACTED] and is reflected as "Redemption of non-controlling interest" (which resulted in a reduction of total members' equity) in the Consolidated Statement of Changes in Members' Equity.

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Notes To Consolidated Financial Statements****Note 1: Summary Of Significant Accounting Policies (Continued)**

Public Interest Network Services, Inc. and Public Interest Telecommunications, Inc. are New York corporations formed in August 1994 and June 1984, respectively. PINS is a local exchange carrier and PITI is an interconnect company. Together, these entities provide telecommunications services, sell and install telecommunications equipment primarily in the New York City market. On April 8, 2011, the Company purchased all of the common stock of PINS and PITI through a stock purchase agreement (see Note 2).

Active Host Data Center, LLC is a single member limited liability company formed in December 2010. Active Host Data Center, LLC is a data center and hosting provider located in Albany, NY and provides web hosting and offsite data storage services throughout the United States. The Company began operations in February 2011, when it acquired the assets and assumed liabilities of Active Host Corporation (see Note 2).

Accounts receivable - Receivables are considered past due when payment is not received within the period allowed under terms of the sale or contract. Periodically, management reviews past due receivables and allows for all accounts deemed uncollectible after all reasonable collection efforts have been exhausted. The allowance for doubtful accounts is principally provided in amounts considered to be appropriate, based primarily upon the Company's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

Inventory - Inventory is stated at lower of cost or market, with cost being determined by the first-in, first-out (FIFO) method.

Depreciation - The cost of property and equipment is depreciated over the estimated useful lives of the related assets using the straight-line method.

Amortization - The costs of intangible assets are being amortized using the straight-line method over the estimated useful lives of the respective assets.

Other investments - Distributed Applications Technologies, LLC's investment in Softmoon, LLC is accounted for using the equity method based upon the level of ownership and DAT's ability to exercise significant influence over the operating and financial policies of the investee. The investment is recorded at original cost and adjusted annually to recognize DAT's proportionate share of the investees' net income or losses and distributions after the date of the investment.

## CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

**Note 1: Summary Of Significant Accounting Policies (Continued)**

Fair value measurements - Accounting principles generally accepted in the United States of America establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Company uses appropriate valuation techniques based on the available inputs to measure fair value. When available, the Company measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available. The three levels of the fair value hierarchy in accordance with accounting principles generally accepted in the United States of America are described below:

- (a) Level 1: Unadjusted quoted prices in active markets for identical, unrestricted assets, or liabilities that the Company has the ability to access at the measurement date;
- (b) Level 2: Quoted prices which are not active, quoted prices for similar assets or liabilities in active markets, or inputs other than quoted prices that are observable (either directly or indirectly) for substantially the full term of the asset or liability; and
- (c) Level 3: Significant unobservable prices or inputs (including the Company's own assumptions in determining the fair value of investments) where there is little or no market activity for the asset or liability at the measurement date.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Income taxes - Cornerstone Telephone Company, LLC, Cornerstone Technology Services, LLC, CS Analysis Group, LLC, Active Host Data Center, LLC, and Distributed Applications Technologies, LLC are limited liability companies and, as such, they are not subject to income taxes. Net income or loss from operations is reported on the members' personal income tax returns.

Public Interest Network Services, Inc., Public Interest Telecommunications, Inc., and Richmond Telephone Company and its Subsidiary, Richmond Connections, Inc. are C corporations. Income tax expense includes federal and state taxes currently payable and deferred taxes.

Tax positions are evaluated and recognized in the consolidated financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. Any liabilities for taxes, interest, and penalties recognized that are associated with a tax position are classified as current in the Company's consolidated financial statements.

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Notes To Consolidated Financial Statements****Note 1: Summary Of Significant Accounting Policies (Continued)**

**Deferred taxes** - Deferred taxes are recognized for differences between the basis of assets and liabilities for consolidated financial statement and income tax purposes. The differences relate primarily to depreciable assets and NOL carryforwards. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled.

**Goodwill** - The cost of investments in purchased companies in excess of the underlying fair value of net assets at dates of acquisition are recorded as goodwill and assessed annually for impairment. If it is considered impaired, goodwill will be written down to fair value and a corresponding impairment loss will be recognized.

**Derivative instruments** - The Company recognizes derivative instruments as either assets or liabilities and measures those instruments at fair value. The Company uses derivatives to manage risks related to interest rate movements. The effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income (loss) and is subsequently reclassified into earnings when interest on the related debt is paid. The Company documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The Company's interest rate risk management strategy is to stabilize cash flow requirements by maintaining interest rate swap contracts to convert variable-rate debt to a fixed rate.

**Comprehensive income** - Comprehensive income (loss) is a total of net income plus all other changes in equity arising from non-owner sources which are referred to as other comprehensive income (loss). The Company has presented a separate consolidated statement of comprehensive income. Non-owner sources of income include unrealized gains (losses) on derivative instruments designated and qualifying as cash flow hedges.

**Estimates** - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The application of these accounting principles involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. The Company periodically evaluates estimates and assumptions used in the preparation of the consolidated financial statements and makes changes on a prospective basis when adjustments are necessary. Significant estimates made by the Company in the accompanying consolidated financial statements include certain assumptions related to the allowance for doubtful accounts, intangible assets including goodwill, and long-lived assets. Actual results could differ from these estimates.

## CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

**Note 2: Business Combinations**

Public Interest Network Services, Inc. and Public Interest Telecommunications, Inc. - On April 8, 2011, the Company purchased all of the common stock of Public Interest Network Services, Inc. and Public Interest Telecommunications, Inc. through a stock purchase agreement primarily to expand the Company's geographic footprint and provide for entry into its first tier 1 market as a facilities based provider. The Company has accounted for the transaction in accordance with accounting principles generally accepted in the United States of America. The accompanying consolidated financial statements include PINS' and PITI's financial results for the period from the purchase date through December 31, 2011. The consideration for acquiring PINS' and PITI's stock totaled [REDACTED], which, based on fair values at the acquisition date, was allocated to:

	<u>PINS</u>	<u>PITI</u>	<u>Total</u>
Cash	[REDACTED]		
Accounts receivable			
Inventory			
Other current assets			
Property, equipment and software			
Intangible assets:			
Customer relationships			
Trade name			
Goodwill			
Other long-term assets			
Contingent consideration (reduction in purchase price and goodwill)			
Accounts payable and accrued expenses			
<b>Total</b>			

The purchase price of [REDACTED] reflects adjustments to the initial purchase price primarily for revisions to accounts payable. The sellers received [REDACTED] cash at closing funded by proceeds from the "Acquisition Line" provided by a bank. The remaining [REDACTED] was financed through a subordinated promissory note to the sellers (see Note 8).

## CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

**Note 2: Business Combinations (continued)**

Active Host Data Center, LLC - On February 1, 2011, the Company purchased the assets and assumed liabilities (collectively, the "Business") from Active Host Corporation through an asset purchase agreement to diversify the Company's On Net hosted solutions including Infrastructure as a Service (IaaS). The Company has accounted for the transaction in accordance with accounting principles generally accepted in the United States of America. The accompanying consolidated financial statements include Active Host Data Center, LLC's financial results for the period from the purchase date through December 31, 2011. The consideration for acquiring the Business totaled [REDACTED], which, based on fair values at the acquisition date, was allocated to:

Accounts receivable	[REDACTED]
Other current assets	
Property and equipment	
Intangible assets:	
Customer relationships	
Trade name	
Goodwill	
Other long-term assets	
Accounts payable and accrued expenses	

**Total**

The net purchase price of [REDACTED] reflects adjustments to the initial purchase price primarily for revisions to various assets and liabilities. The sellers received [REDACTED] cash at closing, and [REDACTED] from an escrow account, funded by proceeds from the "Acquisition Line" provided by a bank. The remaining [REDACTED] was financed through a subordinated promissory note to the sellers (see Note 8). The Company incurred [REDACTED] in financing fees in conjunction with the Acquisition Line financing which have been capitalized and are being amortized over the 36-month term of the note.

**Note 3: Accounts And Other Receivables**

Accounts and other receivables at December 31, 2011 consist of:

Accounts receivable	[REDACTED]
Other receivables	
Less: allowance for doubtful accounts	

**Total**


Bad debt expense for the year ended December 31, 2011 was [REDACTED]


## CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

**Note 4: Property And Equipment**

Property and equipment, stated on the consolidated balance sheet at cost less accumulated depreciation, at December 31, 2011 consist of:

<u>Item</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land		
Equipment		
Central office building		
Telephone equipment		
Equipment under capital lease		
Buildings		
Vehicles		
Furniture and fixtures		
Construction in progress		
Leasehold improvements		
Less: accumulated depreciation		
<b>Total</b>		

Depreciation expense charged to operations for the year ended December 31, 2011 was 

**Note 5: Intangible Assets**

Intangible assets, stated on the consolidated balance sheet at cost less accumulated amortization, at December 31, 2011 consist of:

Trade names	
Customer relationships	
Financing costs	
Software development	
Miscellaneous	
Less: accumulated amortization	
<b>Total</b>	

## CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

**Note 5: Intangible Assets (Continued)**

Amortization expense for the year ended December 31, 2011 was [REDACTED] Estimated amortization expense for each of the five succeeding years is as follows:

2012	[REDACTED]
2013	[REDACTED]
2014	[REDACTED]
2015	[REDACTED]
2016	[REDACTED]
Total	[REDACTED]

**Note 6: Other Investments**

The aggregate carrying amount of DAT's investment in Softmoon, LLC and DAT's underlying equity in the net assets of Softmoon, LLC approximated [REDACTED] at December 31, 2011.

**Note 7: Short-Term Borrowings**

The Company has a [REDACTED] revolving line of credit with a bank. Borrowings against the line are due on demand and interest is payable monthly at prime plus 2% (prime was 3.25% at December 31, 2011). The line of credit is secured by a blanket lien on all Company assets and guaranteed by certain members of the Company. The Company had available [REDACTED] at December 31, 2011.

Distributed Applications Technologies, LLC has a [REDACTED] revolving line of credit with a bank. Borrowings against the line are due on demand and interest is payable monthly at 7.25%. The line of credit is secured by all assets of DAT and by certain members. DAT had available [REDACTED] at December 31, 2011.

## CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

**Note 8: Long-Term Debt**

Long-term debt at December 31, 2011 consists of:

Note payable to a bank, with monthly principal installments of [REDACTED] plus variable interest equal to one-month LIBOR (one-month LIBOR was .2836% at December 31, 2011) plus 3.00%, with a floor of 4.00%, due April 2019. This note is secured by all assets of the Company. The Company entered into a swap agreement that fixed the interest rate at 5.60% through April 2019.

Note payable to sellers of PINS, with monthly installments of [REDACTED] including interest at 7.00%, due March 2014. This note is subordinated to all bank debt.

Note payable to a bank, with monthly installments of [REDACTED] including interest at 5.96%, due March 2019. On April 1, 2014, the interest rate will be adjusted to the prime rate plus 6.00% (prime was 3.25% at December 31, 2011). This note is secured by all assets of the Company.

Note payable to a bank, with monthly principal installments of [REDACTED] plus interest at prime plus 6.00% (prime was 3.25% at December 31, 2011), due May 2014. This note is secured by all assets of the Company.

Note payable to related parties (sellers of DAT), with monthly payments of [REDACTED] including interest at 7.00%, due October 2016. This note is subordinated to all bank debt (see Note 13).

Note payable to a related party, with annual interest only payments of [REDACTED] (interest at 12.50%) due on July 1 and balloon payment due at maturity on July 1, 2015, unsecured (see Note 13).

Note payable to sellers of Active Host Corporation, with monthly installments of [REDACTED] including interest at 7.00%, due February 2014. This note is subordinated to all bank debt.

Notes payable to a bank, with monthly installments ranging from [REDACTED] to [REDACTED], including interest at 6.50%, with maturities through April 2014. These notes are secured by all assets of the Company and by limited personal guarantees by certain members.

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Notes To Consolidated Financial Statements****Note 8: Long-Term Debt (Continued)**

Note payable to an individual, with installments of [REDACTED] paid on April 30, August 31, and December 31 each year through December 2014, unsecured, bearing no interest.

Note payable to a bank, with monthly installments of [REDACTED] including interest payable at prime plus 2.25% (prime was 3.25% at December 31, 2011), due December 2013. This note is unsecured.

Less: current portion

**Long-Term Portion**

Maturities of long-term debt are as follows:

2012	[REDACTED]
2013	[REDACTED]
2014	[REDACTED]
2015	[REDACTED]
2016	[REDACTED]
Thereafter	[REDACTED]
<b>Total</b>	[REDACTED]

Total interest expense for the year ended December 31, 2011 was [REDACTED]

**Note 9: Income Taxes**

The components of income tax expense from continuing operations for the year ended December 31, 2011 consist of:

Current tax expense	[REDACTED]
Deferred tax expense	[REDACTED]
Change in benefit of net operating loss carryforward	[REDACTED]
Change in valuation allowance	[REDACTED]
<b>Total Income Tax Expense</b>	[REDACTED]

## CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

**Note 9: Income Taxes (Continued)**

Deferred tax assets and liabilities at December 31, 2011 consist of:

Net operating loss carryforwards, net of valuation  
allowance of [REDACTED]  
Allowance for doubtful accounts

**Total Deferred Tax Assets**

Timing differences between book and federal and state  
depreciation  
Tax liability on net receivables resulting from cash to  
accrual adjustment from PINS acquisition

**Total Deferred Tax Liabilities**

The Company has available at December 31, 2011, [REDACTED] of unused federal operating loss carryforwards and [REDACTED] of state operating loss carryforwards that may be applied against future taxable income and that expire at various times through 2028.

**Note 10: Capital Leases**

The Company is the lessee of equipment under various capital leases expiring through October 2014. Future minimum lease payments, together with the present value of the net minimum lease payments as of December 31, 2011, are as follows:

2012  
2013  
2014

Total

Less: amount representing interest

**Present Value Of Future Minimum Lease Payments**

Current maturities  
Noncurrent maturities

**Total**

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Notes To Consolidated Financial Statements****Note 10: Capital Leases (Continued)**

The interest rates on the capital lease obligations vary from 11.26% to 15.00% and are imputed based on the Company's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return. Assets held under capital leases at December 31, 2011 are as follows:

Equipment	
Less: accumulated depreciation	

<b>Net Book Value</b>	
-----------------------	--

**Note 11: Retirement Plan**

The Company sponsors a 401(k) plan. All employees who attain 21 years of age and have completed a year of service are considered eligible. The Plan contains a discretionary employer contribution clause. The 401(k) matching contributions for the year ended December 31, 2011 were

**Note 12: Operating Leases**

The Company leases office building space under several month-to-month leases, as well as various operating leases expiring in various years through 2015. Total rent expense under these lease agreements for the year ended December 31, 2011 was

Minimum future rental payments under noncancelable operating leases having initial terms in excess of one year as of December 31, 2011, for each of the next four years are as follows:

2012	
2013	
2014	
2015	

<b>Total</b>	
--------------	--

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Notes To Consolidated Financial Statements****Note 13: Related Party Transactions**

At December 31, 2011, the Company was involved in various transactions with a member of the Company. Transactions and balances with the related party at December 31, 2011 consist of:

**Due to related party**

Member Loan Payable (See Note 8)

Note Payable To Sellers Of DAT (See Note 8)

Some of the sellers of DAT are members of the Company.

**Income and expenses**

Rent Paid To A Related Party - The Company leases property from a member of the Company and provides for rental of office space in two separate locations in Troy, New York. The leases provide for monthly rent expense of approximately [REDACTED] and expire in 2015.

**Note 14: Concentrations Of Credit Risk**

Financial instruments that potentially subject Cornerstone Telephone Company, LLC and Subsidiaries to concentrations of credit risk consist principally of cash in financial institutions. Accounts at each institution are insured up to the Federal Deposit Insurance Corporation limits.

**Note 15: Economic Dependency**

During 2011, the Company had a commercial agreement with one incumbent local exchange carrier (ILEC) through which it purchased telephone service for customers comprising approximately 36% of the Company's revenue. This commercial agreement extends through July 31, 2013. The Company has built out its own infrastructure over the past several years which will allow it to operate independently.

**Note 16: Litigation**

The Company is involved in various claims and legal actions arising in the ordinary course of business. The amount of the liability, if any, from these matters cannot be determined at this time. Management is of the opinion that the resolution of these matters will not, in the aggregate, have a material adverse impact on the financial condition of the Company. The Company's attorneys have advised them that based upon the information they have to date they believe that the likelihood of an unfavorable outcome is low.

## CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

**Note 17: Derivative Instruments**

The Company is exposed to the impact of interest rate changes. The Company's objective is to manage the impact of interest rate changes on earnings and cash flows and on the market value of its borrowings.

The Company utilizes a mix of debt maturities along with both fixed rate and variable rate debt to manage changes in interest rates. In conjunction with its issuance of variable rate debt in April 2009, the Company entered into [REDACTED] of interest rate swaps designated as fair value hedges of the variable rate debt. The effect of these swaps was to convert variable rate interest expense to fixed rate interest expense and to lower its overall borrowing costs.

The Company adjusts the pay-fixed interest rate swap to current market value through other comprehensive income, as the contract is effective in offsetting the interest rate exposure of the forecasted interest rate payments hedged.

The interest rate swap contract requires payment of a fixed rate of interest at 5.60% and receipt of a variable rate based on one month LIBOR plus 3%, subject to a floor of 4% (LIBOR was .2836% at December 31, 2011). This agreement effectively changed the interest rate on the loan from a variable rate to a fixed rate of 5.6%. The cumulative loss from changes in the swap contract's fair value that is deferred in other comprehensive loss as of December 31, 2011 is [REDACTED] and will be recognized in interest expense in the same period in which the related interest on the variable rate debt affects earnings. This contract matures April 1, 2019.

The following represents the notional amount hedged, fair value of the interest rate swap outstanding at December 31, 2011 included in long-term liabilities, and the amount of loss deferred through other comprehensive loss during the year ended December 31, 2011.

	<u>Notional Amount</u>	<u>Liabilities</u>	<u>Loss</u>	<u>Classification Of Loss</u>
Pay-Fixed Interest Rate Swap	[REDACTED]			Other Comprehensive Income

The Company expects to reclassify approximately [REDACTED] of deferred net losses on the interest rate swap to interest expense during the next twelve months.

## CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

**Note 18: Fair Value Measurements**

The following is a description of the valuation methodologies used for assets at fair value at December 31, 2011.

*Derivative instruments:* The fair value was derived by the financing institution's proprietary models based upon financial principles believed to provide a reasonable approximation of the fair market value.

*Goodwill:* Goodwill is assigned to specific reporting units and is reviewed for possible impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value. During 2011, the fair value of goodwill was measured by an independent third party.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

**Fair Value Measurements at Reporting Date Using:**

	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b><u>December 31, 2011</u></b>				
Goodwill				
Derivative instruments				
<b>Total</b>				

## CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

**Note 18: Fair Value Measurements (Continued)****Assets Measured At Fair Value On A Recurring Basis Using  
Significant Unobservable Inputs (Level 3)****Goodwill**

Beginning balance - December 31, 2010

Acquisition of goodwill

Ending Balance - December 31, 2011

**Note 19: Commitments And Contingencies**

The Company follows the guidance for uncertainty in income taxes. As of December 31, 2011, the Company believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open tax years based on an assessment of many factors including experience and interpretations of tax laws applied to the facts of each matter. The Company has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits. The Company is no longer subject to federal, state, or local income tax examination by tax authorities for years before December 31, 2008.

**Note 20: Subsequent Events**

Subsequent events have been evaluated through September 19, 2012, which is the date the consolidated financial statements were available to be issued.

**CONSOLIDATING AND CONSOLIDATED SUPPLEMENTAL INFORMATION**

Schedule F

## CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

Consolidating Balance Sheet

December 31, 2011

Cornerstone Telephone Company, LLC	Cornerstone Technology Services, LLC	CS Analysis Group, LLC	Public Interest Network Services, Inc.	Public Interest Telecommunications, Inc.	Richmond Telephone Company And Subsidiary	Active Host Data Center, LLC	Distributed Applications Technologies, LLC	Eliminations	Consolidated
--	--	---------------------------	--	--	---	------------------------------------	--	--------------	--------------

Assets									
Current assets:									
Cash									
Accounts and other receivables, net									
Due from related parties									
Inventory									
Prepaid expenses									
Total current assets									
Property and equipment, net									
Intangible assets									
Goodwill									
Investment in subsidiaries									
Deferred tax asset									
Other investments									
Other long-term assets									
Total Assets									

Current assets:

Cash

Accounts and other receivables, net

Due from related parties

Inventory

Prepaid expenses

Total current assets

Property and equipment, net

Intangible assets

Goodwill

Investment in subsidiaries

Deferred tax asset

Other investments

Other long-term assets

Total Assets

## Liabilities And Members' Equity

Liabilities And Members' Equity									
Current liabilities:									
Short-term borrowings									
Current portion of long-term debt									
Current portion of capital lease obligations									
Accounts payable and accrued expenses									
Due to related parties									
Total current liabilities									
Deferred tax liability									
Derivative instruments									
Capital lease obligations									
Long-term debt									
Total liabilities									
Members' equity and retained earnings:									
Common stock									
Additional paid-in capital									
Retained earnings									
Treasury stock									
Members' equity									
Accumulated other comprehensive loss									
Non-controlling interest									
Total members' equity									
Total Liabilities And Members' Equity									

Current liabilities:

Short-term borrowings

Current portion of long-term debt

Current portion of capital lease obligations

Accounts payable and accrued expenses

Due to related parties

Total current liabilities

Deferred tax liability

Derivative instruments

Capital lease obligations

Long-term debt

Total liabilities

Members' equity and retained earnings:

Common stock

Additional paid-in capital

Retained earnings

Treasury stock

Members' equity

Accumulated other comprehensive loss

Non-controlling interest

Total members' equity

Total Liabilities And Members' Equity

## Schedule II

## CORNESTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Consolidating Statement Of Income And Members' Equity

For The Year Ended December 31, 2011

Cornestone Telephone Company, LLC	Cornestone Technology Services, LLC	CS Analysis Group, LLC	Public Interest Network Services, Inc.	Public Interest Telecommunications, Inc.	Richmond Telephone Company Subsidiary	Active Host Data Center, LLC	Distributed Applications Technologies, LLC	Eliminations	Consolidated
---	---	---------------------------	--	--	---	------------------------------------	--	--------------	--------------

Net sales	
Cost of sales	
Gross profit	
Selling and administrative expenses	
Operating income	
Other income and (expense):	
Management fee income	
Interest and dividend income	
Loss on disposal of assets	
Gain (loss) from subsidizing	
Interest expense	
Total other income and (expense)	
Consolidated income (loss) before provision for income taxes	
Provision for income taxes	
Consolidated net income (loss)	
Income attributable to the non-controlling interest	
Controlling interest net income (loss)	
Retained earnings/in members' equity - beginning	
Redemption of Non Controlling Interest	
Members' distributions	
Members' Equity - Ending	

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Consolidated Schedule Of Selling And Administrative Expenses****For The Year Ended December 31, 2011****Selling and administrative expenses:**

Salaries  
Depreciation and amortization  
Rent  
Payroll taxes  
Bad debt expense  
Selling  
Professional fees  
Commissions  
Travel and entertainment  
Employee benefits  
Office expense  
Utilities  
Computer expenses  
Auto expenses  
Insurance  
Profit sharing expense  
Bank fees  
Credit card fees  
Repairs  
Donations  
Miscellaneous  
Dues and subscriptions  
Advertising  
Postage  
State filing fees

**Total Selling And Administrative Expenses**

***CORNERSTONE TELEPHONE COMPANY, LLC  
AND SUBSIDIARIES***

***CONSOLIDATED FINANCIAL STATEMENTS***

***DECEMBER 31, 2012***



Teal, Becker & Chiaramonte™  
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

A Higher Standard of Excellence

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<b><u>CONSOLIDATING AND CONSOLIDATED SUPPLEMENTAL INFORMATION</u></b>	<b><u>Schedule Number</u></b>
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**Teal, Becker & Chiaramonte™**  
 CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

To The Members of  
 Cornerstone Telephone Company, LLC  
 and Subsidiaries  
 Troy, New York

### **Independent Auditors' Report**

#### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Cornerstone Telephone Company, LLC and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

#### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

7 Washington Square, Albany, NY 12205    Pk: (518) 456-6665 | Fax: (518) 456-5975    [www.tbccpa.com](http://www.tbccpa.com)

Cornerstone Telephone Company, LLC and Subsidiaries  
Page Two

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cornerstone Telephone Company, LLC and Subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Consolidating and Consolidated Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and consolidated supplementary information in Schedules I, II, and III is presented for purposes of additional analysis, and is not a required part of the consolidated financial statements. Such consolidating and consolidated information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating and consolidated information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating and consolidated information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Paul Buckner & Charmonette CPAs PC*

Albany, New York  
August 26, 2013

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Consolidated Balance Sheet**

December 31, 2012

**Assets****Current assets:**

Cash  
 Accounts and other receivables, net (Note 2)  
 Inventory  
 Prepaid expenses  
 Total current assets

**Property and equipment, net (Note 3)****Intangible assets, net (Note 4)****Goodwill (Note 17)****Deferred tax asset (Note 8)****Other investments (Note 5)****Other long-term assets****Total Assets****Liabilities And Members' Equity****Current liabilities:**

Short-term borrowings (Note 6)  
 Current portion of long-term debt (Note 7)  
 Current portion of capital lease obligations (Note 9)  
 Accounts payable and accrued expenses  
 Total current liabilities

**Deferred tax liability (Note 8)****Derivative instruments (Notes 16 and 17)****Capital lease obligations (Note 9)****Long-term debt (Note 7)****Total liabilities****Members' equity:**

Controlling interest  
 Accumulated other comprehensive loss  
 Non-controlling interest  
 Total members' equity

**Total Liabilities And Members' Equity**

The accompanying notes are an integral part of these consolidated financial statements

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Consolidated Statement Of Income****For The Year Ended December 31, 2012****%****Net sales****Cost of sales****Gross profit****Selling and administrative expenses****Operating income****Other expenses:**

Loss from subsidiaries

Interest expense

Total other expenses, net

**Consolidated income before provision for income taxes****Provision for income taxes (Note 8)****Consolidated net income****Net income attributable to non-controlling interest****Net Income Attributable To Controlling Interest**

The accompanying notes are an integral part of these consolidated financial statements

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES**

**Consolidated Statement Of Comprehensive Income**

**For The Year Ended December 31, 2012**

**Consolidated net income**

**Other comprehensive income:**

Loss on derivative instruments designated and qualifying as cash flow hedges


Reclassification adjustment

Other comprehensive income

**Comprehensive Income**



**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Consolidated Statement Of Changes In Members' Equity****For The Year Ended December 31, 2012**

	<b><u>Controlling</u></b>	<b><u>Non-Controlling</u></b>	<b><u>Accumulated Other Comprehensive</u></b>	<b><u>Total</u></b>
	<b><u>Interest</u></b>	<b><u>Interest</u></b>	<b><u>Loss</u></b>	
<b>Balance At December 31, 2011</b>				
<b>Comprehensive income</b>				
<b>Members' distributions</b>				
<b>Balance At December 31, 2012</b>				

The accompanying notes are an integral part of these consolidated financial statements

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES**

**Consolidated Statement Of Cash Flows**

**For The Year Ended December 31, 2012**

**Operating activities:**

Consolidated net income  
Adjustments to reconcile consolidated net income to net cash flows  
from (for) operating activities:  
Depreciation and amortization  
Provision for losses on accounts receivable  
Deferred income tax expense  
Loss from subsidiary  
Changes in operating assets and liabilities:  
Accounts and other receivables  
Inventory, prepaid expenses, and other assets  
Accounts payable and accrued expenses  
Net cash flows from operating activities

**Investing activities:**

Property and equipment expenditures  
Net cash flows for investing activities

**Financing activities:**

Net proceeds from short-term borrowings  
Principal repayments on long-term debt  
Principal repayments on capital lease obligations  
Distributions to non-controlling interest  
Distributions to members  
Net cash flows for financing activities

**Net decrease in cash**

**Cash - beginning**

**Cash - Ending**

The accompanying notes are an integral part of these consolidated financial statements  
(7)

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES**

**Consolidated Statement Of Cash Flows**

**For The Year Ended December 31, 2012**

**Supplemental disclosures of cash flows information:**

Interest Paid

Income Taxes Paid

**Supplemental schedule of noncash investing and financing activities:**

Purchase of property and equipment

Less: capital lease obligations incurred

**Property And Equipment Expenditures**



The accompanying notes are an integral part of these consolidated financial statements

## CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

### Notes To Consolidated Financial Statements

#### Note 1: Summary Of Significant Accounting Policies

Background information - Cornerstone Telephone Company, LLC is a limited liability company formed in January 2002. Its purpose is to own and operate a telecommunications business and provide related services in the Northeastern United States.

Basis of consolidation - The accompanying consolidated financial statements include the financial statements of Cornerstone Telephone Company, LLC (the Company), Cornerstone Technology Services, LLC, CS Analysis Group, LLC, Richmond Telephone Company (including its wholly-owned subsidiary, Richmond Connections, Inc.), Distributed Applications Technologies, LLC (DAT), Public Interest Network Services, Inc. (PINS), Public Interest Telecommunications, Inc. (PITI), and Active Host Data Center, LLC. Intercompany transactions and balances have been eliminated upon consolidation.

Cornerstone Technology Services, LLC is a limited liability company formed in March 2006. Its purpose is the sale and installation of telecommunications equipment in the northeastern United States. The Company owns a 60% equity interest in Cornerstone Technology Services, LLC.

CS Analysis Group, LLC is a limited liability company formed in January 2008. Its purpose is to operate as an agent for the sale of telecommunications services throughout the United States. The Company owns a 77% equity interest in CS Analysis Group, LLC.

Richmond Telephone Company is a Massachusetts corporation, organized in 1902 to provide telephone service to residential and business customers in Richmond, MA. A significant portion of their revenue is derived from access and billing and collection charges from various carriers. Richmond Telephone Company's wholly-owned subsidiary, Richmond Connections, Inc., was organized in 1999 to provide telecommunications services and equipment, including internet services to customers in Richmond, MA. The Company owns all of the common stock of Richmond Telephone Company.

Distributed Applications Technologies, LLC is a single member limited liability company wholly owned by the Company and was formed in August 2001. Its purpose is to own and operate an application service provider and computer network integration services business in New York State.

Public Interest Network Services, Inc. and Public Interest Telecommunications, Inc. are New York corporations formed in August 1994 and June 1984, respectively. PINS is a local exchange carrier and PITI is an interconnect company. Together, these entities provide telecommunications services, sell and install telecommunications equipment primarily in the New York City market. The Company owns all of the common stock of PINS and PITI.

Active Host Data Center, LLC is a single member limited liability company wholly owned by the Company and was formed in December 2010. Active Host Data Center, LLC is a data center and hosting provider located in Albany, NY and provides web hosting and offsite data storage services throughout the United States.

## CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

**Note 1: Summary Of Significant Accounting Policies (Continued)**

Accounts receivable - Receivables are considered past due when payment is not received within the period allowed under terms of the sale or contract. Periodically, management reviews past due receivables and allows for all accounts deemed uncollectible after all reasonable collection efforts have been exhausted. The allowance for doubtful accounts is principally provided in amounts considered to be appropriate, based primarily upon the Company's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

Inventory - Inventory is stated at lower of cost or market, with cost being determined by the first-in, first-out (FIFO) method.

Depreciation - The cost of property and equipment is depreciated over the estimated useful lives of the related assets using the straight-line method.

Amortization - The costs of intangible assets are being amortized using the straight-line method over the estimated useful lives of the respective assets.

Other investments - Distributed Applications Technologies, LLC's investment in Softmoon, LLC is accounted for using the equity method based upon the level of ownership and DAT's ability to exercise significant influence over the operating and financial policies of the investee. The investment is recorded at original cost and adjusted annually to recognize DAT's proportionate share of the investees' net income or losses and distributions after the date of the investment. The loss from Softmoon, LLC for the year ended December 31, 2012 consisted entirely of amortization expenses.

Fair value measurements - Accounting principles generally accepted in the United States of America establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Company uses appropriate valuation techniques based on the available inputs to measure fair value. When available, the Company measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available. The three levels of the fair value hierarchy in accordance with accounting principles generally accepted in the United States of America are described below:

- (a) Level 1: Unadjusted quoted prices in active markets for identical, unrestricted assets, or liabilities that the Company has the ability to access at the measurement date;
- (b) Level 2: Quoted prices which are not active, quoted prices for similar assets or liabilities in active markets, or inputs other than quoted prices that are observable (either directly or indirectly) for substantially the full term of the asset or liability; and

# CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

### Note 1: Summary Of Significant Accounting Policies (Continued)

- (c) Level 3: Significant unobservable prices or inputs (including the Company's own assumptions in determining the fair value of investments) where there is little or no market activity for the asset or liability at the measurement date.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Income taxes - Cornerstone Telephone Company, LLC, Cornerstone Technology Services, LLC, CS Analysis Group, LLC, Active Host Data Center, LLC, and Distributed Applications Technologies, LLC are limited liability companies and, as such, they are not subject to income taxes. Net income or loss from operations is reported on the members' personal income tax returns.

Public Interest Network Services, Inc., Public Interest Telecommunications, Inc., and Richmond Telephone Company and its Subsidiary, Richmond Connections, Inc. are C corporations. Income tax expense includes federal and state taxes currently payable and deferred taxes.

Tax positions are evaluated and recognized in the consolidated financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. Any liabilities for taxes, interest, and penalties recognized that are associated with a tax position are classified as current in the Company's consolidated financial statements.

Deferred taxes - Deferred taxes are recognized for differences between the basis of assets and liabilities for consolidated financial statement and income tax purposes. The differences relate primarily to depreciable assets and NOL carryforwards. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled.

Goodwill - The cost of investments in purchased companies in excess of the underlying fair value of net assets at the dates of acquisition are recorded as goodwill and assessed annually for impairment. If it is considered impaired, goodwill will be written down to fair value and a corresponding impairment loss will be recognized.

Derivative instruments - The Company recognizes derivative instruments as either assets or liabilities and measures those instruments at fair value. The Company uses derivatives to manage risks related to interest rate movements. The effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income (loss) and is subsequently reclassified into earnings when interest on the related debt is paid. The Company documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The Company's interest rate risk management strategy is to stabilize cash flow requirements by maintaining interest rate swap contracts to convert variable-rate debt to a fixed rate.

## CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

**Note 1: Summary Of Significant Accounting Policies (Continued)**

**Comprehensive income** - Comprehensive income (loss) is a total of net income plus all other changes in equity arising from non-owner sources which are referred to as other comprehensive income (loss). The Company has presented a separate consolidated statement of comprehensive income. Non-owner sources of income include unrealized gains (losses) on derivative instruments designated and qualifying as cash flow hedges.

**Estimates** - The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The application of these accounting principles involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. The Company periodically evaluates estimates and assumptions used in the preparation of the consolidated financial statements and makes changes on a prospective basis when adjustments are necessary. Significant estimates made by the Company in the accompanying consolidated financial statements include certain assumptions related to the allowance for doubtful accounts, intangible assets including goodwill, and long-lived assets. Actual results could differ from these estimates.

**Note 2: Accounts And Other Receivables**

Accounts and other receivables at December 31, 2012 consist of:

Accounts receivable

Other receivables


Less: allowance for doubtful accounts


**Total**

Bad debt expense for the year ended December 31, 2012 was

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Notes To Consolidated Financial Statements****Note 3: Property And Equipment**

Property and equipment, stated on the consolidated balance sheet at cost less accumulated depreciation, at December 31, 2012 consist of:

<u>Item</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land		
Equipment		
Central office building		
Buildings		
Vehicles		
Leasehold improvements		
Furniture and fixtures		
Construction in progress		
Less: accumulated depreciation		
<b>Total</b>		

Depreciation expense charged to operations for the year ended December 31, 2012 was 

**Note 4: Intangible Assets**

Intangible assets, stated on the consolidated balance sheet at cost less accumulated amortization, at December 31, 2012 consist of:

Trade names	
Customer relationships	
Financing costs	
Software development	
Miscellaneous	
Less: accumulated amortization	
<b>Total</b>	

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Notes To Consolidated Financial Statements****Note 4: Intangible Assets (Continued)**

Amortization expense for the year ended December 31, 2012 was [REDACTED] Estimated amortization expense for each of the five succeeding years is as follows:

2013	[REDACTED]
2014	
2015	
2016	
2017	
<b>Total</b>	[REDACTED]

**Note 5: Other Investments**

The aggregate carrying amount of DAT's investment in Softmoon, LLC and DAT's underlying equity in the net assets of Softmoon, LLC approximated [REDACTED] at December 31, 2012.

**Note 6: Short-Term Borrowings**

The Company has a [REDACTED] revolving line of credit with a bank. Borrowings against the line are due on demand and interest is payable monthly at prime plus 2% (prime was 3.25% at December 31, 2012). The line of credit is secured by a blanket lien on all Company assets and guaranteed by certain members of the Company. The Company had available [REDACTED] at December 31, 2012.

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Notes To Consolidated Financial Statements****Note 7: Long-Term Debt**

Long-term debt at December 31, 2012 consists of:

Note payable to a bank, with monthly principal installments of [REDACTED] plus variable interest equal to one-month LIBOR (one-month LIBOR was .2087% at December 31, 2012) plus 3.00%, with a floor of 4.00%, due April 2019. This note is secured by all assets of the Company. The Company entered into a swap agreement that fixed the interest rate at 5.60% through April 2019.

Note payable to a bank, with monthly installments of [REDACTED] including interest at 5.96%, due March 2019. On April 1, 2014, the interest rate will be adjusted to the prime rate plus 6.00% (prime was 3.25% at December 31, 2012). This note is secured by all assets of the Company.

Note payable to sellers of PINS, with monthly installments of [REDACTED] including interest at 7.00%, due March 2014. This note is subordinated to all bank debt.

Note payable to a bank, with monthly principal installments of [REDACTED] plus interest at prime plus 6.00% (prime was 3.25% at December 31, 2012), due May 2014. This note is secured by all assets of the Company.

Note payable to a related party, with annual interest only payments of [REDACTED] (interest at 12.50%) due on July 1 and a balloon payment due at maturity on July 1, 2015, unsecured (see Note 12).

Note payable to related parties (sellers of DAT), with monthly payments of [REDACTED] including interest at 7.00%, due October 2016. This note is subordinated to all bank debt (see Note 12).

Note payable to sellers of Active Host Corporation, with monthly installments of [REDACTED], including interest at 7.00%, due February 2014. This note is subordinated to all bank debt.

Note payable to a bank, with monthly installments of [REDACTED] including interest at 6.50%, due April 2014. These notes are secured by all assets of the Company and by limited personal guarantees by certain members.

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Notes To Consolidated Financial Statements****Note 7: Long-Term Debt (Continued)**

Note payable to an individual, with installments of [REDACTED] paid on April 30, August 31, and December 31 each year through December 2014, unsecured, bearing no interest.

Note payable to a bank, with monthly installments of [REDACTED] including interest payable at prime plus 2.25% (prime was 3.25% at December 31, 2012), due December 2013. This note is unsecured.

Less: current portion

**Long-Term Portion**

Maturities of long-term debt are as follows:

2013
2014
2015
2016
2017
Thereafter

**Total**

Total interest expense for the year ended December 31, 2012 was [REDACTED]

**Note 8: Income Taxes**

The components of income tax expense from continuing operations for the year ended December 31, 2012 consist of:

Deferred Tax Expense [REDACTED]

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Notes To Consolidated Financial Statements****Note 8: Income Taxes (Continued)**

Deferred tax assets and liabilities at December 31, 2012 consist of:

Allowance for doubtful accounts  
Net operating loss carryforwards

**Total Deferred Tax Assets**

Timing differences between book and federal and state  
depreciation

Tax liability on net receivables resulting from cash to  
accrual adjustment from PINS acquisition

**Total Deferred Tax Liabilities**

The Company has available at December 31, 2012, [REDACTED] of unused federal operating loss carryforwards and [REDACTED] of state operating loss carryforwards that may be applied against future taxable income and that expire at various times through 2030.

**Note 9: Capital Leases**

The Company is the lessee of equipment under various capital leases expiring through October 2016. Assets held under these leases are as follows:

Equipment  
Less: accumulated depreciation

**Net Book Value**

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Notes To Consolidated Financial Statements****Note 9: Capital Leases (Continued)**

Future minimum lease payments, together with the present value of the net minimum lease payments as of December 31, 2012, are as follows:

	2013	
	2014	
	2015	
	2016	
Total minimum lease payments		
Less: amount representing interest		
<b>Net Present Value Of Minimum Lease Payments</b>		
Current maturities		
Noncurrent maturities		
<b>Total</b>		

The interest rates on the capital lease obligations vary from 5.36% to 23.82% and are imputed based on the Company's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return.

Depreciation of assets under capital leases is included in depreciation expense for the year ended December 31, 2012.

**Note 10: Retirement Plan**

The Company sponsors a 401(k) plan. All employees who attain 21 years of age and have completed a year of service are considered eligible. The Plan contains a discretionary employer contribution clause. There were no 401(k) matching contributions for the year ended December 31, 2012.

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Notes To Consolidated Financial Statements****Note 11: Operating Leases**

The Company leases office building space under several month-to-month leases, as well as various operating leases expiring in various years through 2023. Total rent expense under these lease agreements for the year ended December 31, 2012 was [REDACTED]

Minimum future rental payments under noncancelable operating leases having initial terms in excess of one year as of December 31, 2012, for each of the next five years and in the aggregate are as follows:

2013
2014
2015
2016
2017
Thereafter
<b>Total</b>

**Note 12: Related Party Transactions**

At December 31, 2012, the Company was involved in various transactions with a member of the Company. Transactions and balances with the related party at December 31, 2012 consist of:

**Due to related party**

Member Loan Payable (See Note 7)

Note Payable To Sellers Of DAT (See Note 7)

Some of the sellers of DAT are members of the Company.



## **CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES**

### **Notes To Consolidated Financial Statements**

#### **Note 12: Related Party Transactions (Continued)**

##### **Income and expenses**

Rent Paid To A Related Party - The Company leases property from a member of the Company and provides for rental of office space in two separate locations in Troy, New York. The leases provide for monthly rent expense of approximately [REDACTED] and expire in 2015.

Interest Expense To A Related Party - The Company made interest only payments (interest at 12.50%) on a note payable to a member.

Interest Expense To A Related Party - The Company made payments on a note payable to the sellers of DAT, including interest at 7.00%.

Guaranteed Payments To A Related Party - The Company made guaranteed payments to a member of the Company for a contractually obligated return on a capital contribution.

#### **Note 13: Concentrations Of Credit Risk**

Financial instruments that potentially subject Cornerstone Telephone Company, LLC and Subsidiaries to concentrations of credit risk consist principally of cash in financial institutions. Accounts at each institution are insured up to the Federal Deposit Insurance Corporation limits.

#### **Note 14: Economic Dependency**

During 2012, the Company had a commercial agreement with one incumbent local exchange carrier (ILEC) through which it purchased telephone service for customers comprising approximately 32% of the Company's revenue. This commercial agreement extends through July 31, 2016. The Company has built out its own infrastructure over the past several years which will allow it to operate independently.

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Notes To Consolidated Financial Statements****Note 15: Litigation**

The Company is involved in various claims and legal actions arising in the ordinary course of business. The amount of the liability, if any, from these matters cannot be determined at this time. Management is of the opinion that the resolution of these matters will not, in the aggregate, have a material adverse impact on the financial condition of the Company. The Company's attorneys have advised them that based upon the information they have to date they believe that the likelihood of an unfavorable outcome is low.

**Note 16: Derivative Instruments**

The Company is exposed to the impact of interest rate changes. The Company's objective is to manage the impact of interest rate changes on earnings and cash flows and on the market value of its borrowings.

The Company utilizes a mix of debt maturities along with both fixed rate and variable rate debt to manage changes in interest rates. In conjunction with its issuance of variable rate debt in April 2009, the Company entered into [REDACTED] of interest rate swaps designated as fair value hedges of the variable rate debt. The effect of these swaps was to convert variable rate interest expense to fixed rate interest expense and to lower its overall borrowing costs.

The Company adjusts the pay-fixed interest rate swap to current market value through other comprehensive income, as the contract is effective in offsetting the interest rate exposure of the forecasted interest rate payments hedged.

The interest rate swap contract requires payment of a fixed rate of interest at 5.60% and receipt of a variable rate based on one month LIBOR plus 3%, subject to a floor of 4% (LIBOR was .2087% at December 31, 2012). This agreement effectively changed the interest rate on the loan from a variable rate to a fixed rate of 5.6%. The cumulative loss from changes in the swap contract's fair value that is deferred in other comprehensive loss as of December 31, 2012 is [REDACTED] and will be recognized in interest expense in the same period in which the related interest on the variable rate debt affects earnings. This contract matures April 1, 2019.

## CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

**Note 16: Derivative Instruments (Continued)**

The following represents the notional amount hedged, fair value of the interest rate swap outstanding at December 31, 2012 included in long-term liabilities, and the amount of loss deferred through other comprehensive loss during the year ended December 31, 2012.

	<u>Notional Amount</u>	<u>Liabilities</u>	<u>Loss</u>	<u>Classification Of Loss</u>
Pay-Fixed Interest Rate Swap				Other Comprehensive Income

The Company expects to reclassify approximately of deferred net losses on the interest rate swap to interest expense during the next twelve months.

**Note 17: Fair Value Measurements**

The following is a description of the valuation methodologies used for assets at fair value at December 31, 2012.

*Derivative instruments:* The fair value was derived by the financing institution's proprietary models based upon financial principles believed to provide a reasonable approximation of the fair market value.

*Goodwill:* Goodwill is assigned to specific reporting units and is reviewed for possible impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

All assets have been valued using a cost approach. There were no changes in the valuation techniques during the current year.

## CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

**Note 17: Fair Value Measurements (Continued)****Fair Value Measurements at Reporting Date Using:**

	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b><u>December 31, 2012</u></b>				

**Assets:**

Goodwill

**Liabilities:**

Derivative instruments

**Assets Measured At Fair Value On A Recurring Basis Using  
Significant Unobservable Inputs (Level 3)****Goodwill****December 31, 2012**

Beginning And Ending Balance

**Note 18: Commitments And Contingencies**

The Company follows the guidance for uncertainty in income taxes. As of December 31, 2012, the Company believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open tax years based on an assessment of many factors including experience and interpretations of tax laws applied to the facts of each matter. The Company has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits. The Company is no longer subject to federal, state, or local income tax examination by tax authorities for years before 2009.

**Note 19: Subsequent Events**

Subsequent events have been evaluated through August 26, 2013, which is the date the consolidated financial statements were available to be issued.

**CONSOLIDATING AND CONSOLIDATED SUPPLEMENTAL INFORMATION**



## For The Year Ended December 31, 2012

[illegible]

**CORNERSTONE TELEPHONE COMPANY, LLC AND SUBSIDIARIES****Consolidated Schedule Of Selling And Administrative Expenses**

For The Year Ended December 31, 2012

**Selling and administrative expenses:**

Salaries  
Depreciation and amortization  
Bad debt expense  
Rent  
Payroll taxes  
Selling  
Commissions  
Professional fees  
Employee benefits  
Travel and entertainment  
Office expense  
Utilities  
Auto expenses  
Insurance  
Computer expenses  
Advertising  
Repairs  
Miscellaneous  
Bank fees  
Credit card fees

**Total Selling And Administrative Expenses**